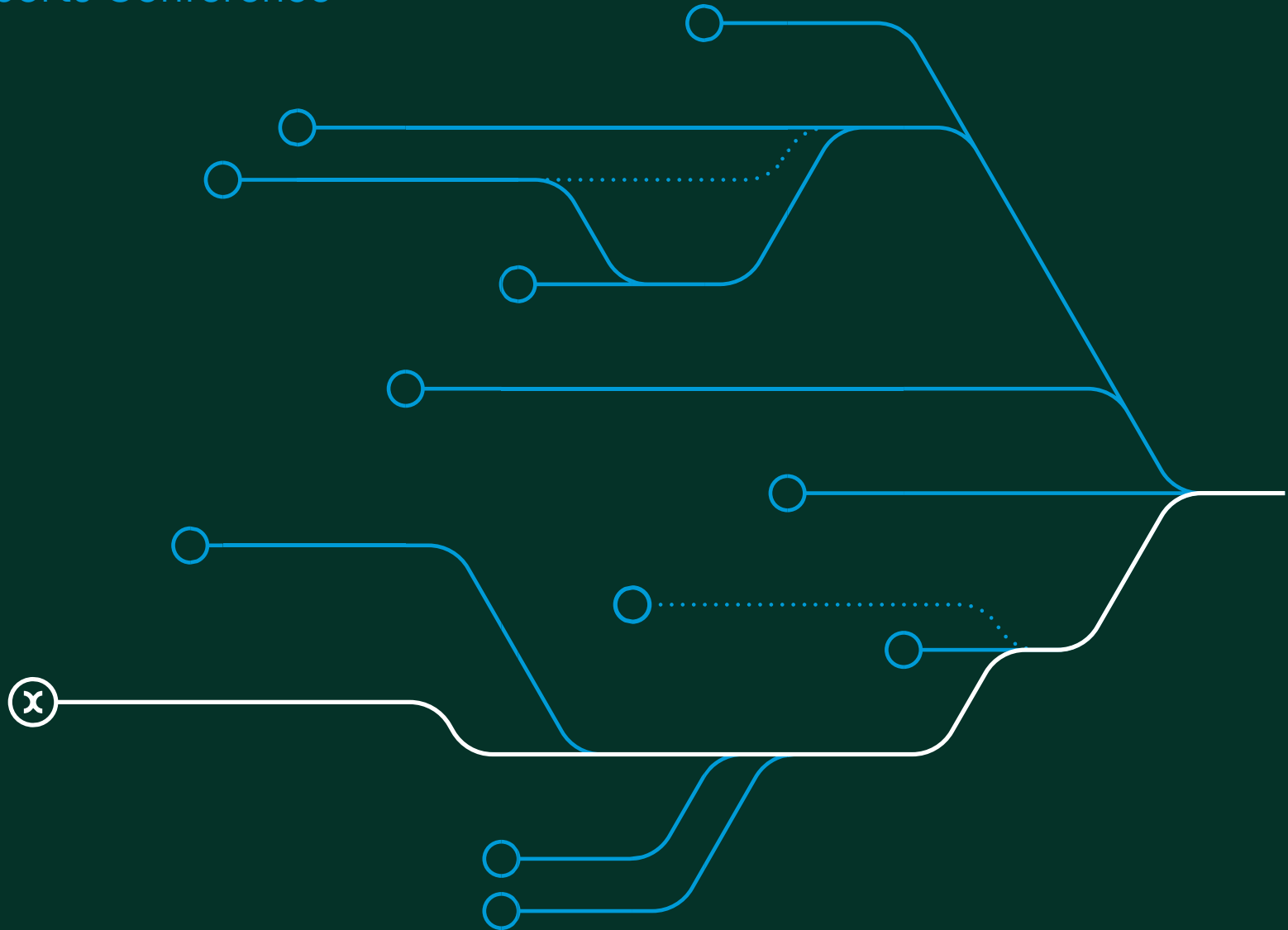


Economic analysis of the profitability of regional airports

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Prepared for ACI EUROPE's Regional Airports Conference

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29 April 2025



Overview

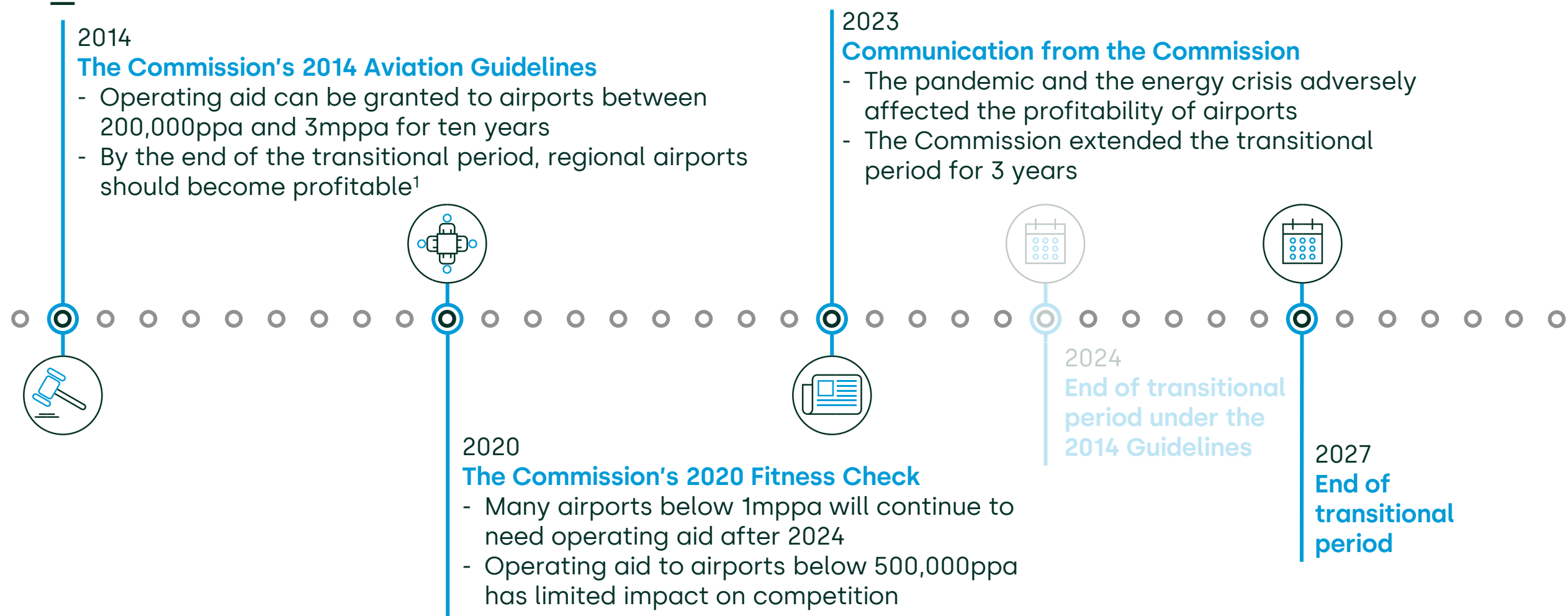
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Introduction

Findings from Oxera's 2024 study

The Aviation State aid Guidelines

Recap of the state aid framework for operating aid



¹The Commission had recognised increased difficulties for airports with annual traffic of up to 700,000ppa in achieving full cost coverage during the transitional period.

Study of the profitability of regional airports

Purpose and approach



Oxera's 2019 study on the profitability of regional airports

- airports below 1mppa are unlikely to cover their operating costs by 2024




Oxera's 2024 study on the profitability of regional airports

- are regional airports likely to be able to cover their operating costs by 2027 (i.e. the end of the transitional period)?



Our 2024 study is based on financial information provided by a sample of EU regional airports, discussions with the airports' management, and results from the empirical literature

	Passengers (2022/23)	Category
1	100k – 150kppa	1
2	200k – 250kppa	
3	250k – 300kppa	
4	250k – 300kppa	
5	350k – 400kppa	
6	500k – 550kppa	2
7	550k – 600kppa	
8	550k – 600kppa	
9	600k – 650kppa	
10	800k – 850kppa	3
11	900k – 1.0mppa	
12	1.0m – 1.5mppa	
13	1.0m – 1.5mppa	
14	1.5m – 2.0mppa	

Overview

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Introduction

Findings from Oxera's 2024 study

Airports' size and the link with profitability

Trends in airports' aeronautical and non-aeronautical revenues



Aeronautical revenues

- aeronautical revenues per passenger at most airports have recovered to 2019 levels and are likely to remain stable over the next few years
- structural changes in aviation market increase bargaining power of airlines:
 - ① consolidation of airlines
 - ② problems with supply of aircraft
 - ③ competition from hub airports

Non-aeronautical revenues

- non-aeronautical revenues per passenger at most airports have recovered to 2019 levels
- however, limited growth is expected over the next few years
- difficult to diversify revenues through non-aeronautical activities:
 - ① higher share of leisure traffic increases seasonality
 - ② insufficient funding for investments in non-aeronautical facilities

→ higher incentive payments

Regional airports typically have limited scope to maximise aeronautical revenues and develop their non-aeronautical activities

Airports' size and the link with profitability

Trends in airports' operating costs



- airports introduced various cost reduction measures during the pandemic
- however, due to the energy crisis and high inflation, operating costs per passenger have significantly increased and have often exceeded pre-pandemic levels
- limited possibilities for further efficiencies
 - ① high share of fixed costs
 - ② limited scope for additional cost cutting measures
- significant differences between Member States regarding the availability of government funding of costs of customs, safety, fire-fighting and air traffic control

Efforts to reduce costs per passenger remain heavily dependent on increasing the number of passengers



Airports that receive public funding of such activities are more likely to break-even financially



Airports' size and the link with profitability

Trends in airports' profitability



Airports' actual profitability

- there is a strong relationship between airports' size and its ability to generate profits
- airports with below 1mppa have generally been unable to generate consistently positive profits over 2016–23 (even after excluding the 2020-21 period)
- this conclusion does not depend on the precise profitability metric (e.g. EBITDA vs EBIT)



Airports' ability to generate profits on a per passenger basis has not improved, contrary to the Commission's expectations at the time of the introduction of the 2014 Guidelines

Airports' forecast profitability

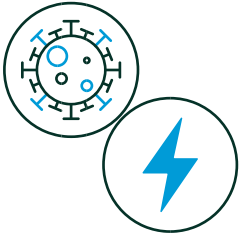
- airports with less than 1mppa are unlikely to achieve consistent and significant operating profits prior to April 2027
- airports with less than 500,000ppa expect to remain consistently unprofitable before 2027
- these findings are in line with those from empirical studies



Where profitability is anticipated, it tends to be based on passenger growth rather than increases in profitability per passenger

Airports' size and the link with profitability

Impact of recent shocks on airports' profitability



COVID-19 and the war in Ukraine



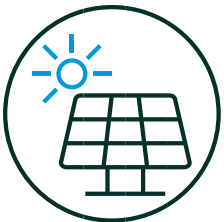
- air connectivity significantly affected
- varied speed of recovery due to differences in the passenger mix and government support measures
- the prolongation of the transitional period to 2027 is unlikely to be sufficient to maintain and preserve air connectivity



Structural changes in the aviation market



- increased share of leisure traffic leads to greater seasonality
- consolidation strengthens airlines' bargaining position for both LCCs and network carriers



EU's Fit For 55 package



- aim to achieve a 55% reduction in greenhouse gas emissions by 2030 relative to 1990 and to become climate neutral by 2050
- increased costs for airports and reduced passenger traffic
- most airports in the sample have not factored this into their financial projections; hence, potentially over-estimating their profitability

Airports' size and the link with profitability

Conclusions



In line with the results of our 2019 study and the Commission's 2020 findings, airports with fewer than 1mppa are unlikely to generate consistent and significant profits per passenger before 2027



Profitability per passenger is unlikely to develop before 2027 as envisaged by the Commission in 2014





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